



State Budget Update

November 2001

Dear Friends,

This time last year, state reserve accounts were flush with surplus tax money. Since then, however, government’s penchant for spending, combined with our slowing economy, has placed the state budget in a much different situation today.

We are just five months into our two-year budget cycle, and even optimistic projections show our state budget going in the red. Lawmakers will be pressed to make some difficult decisions when we convene in January to bring the budget into balance and protect important state services for the citizens of Washington.

Frankly, these are decisions that should have been made months ago. But instead of making responsible budget choices, Democrats in the Legislature abandoned bipartisan negotiations and chose to pass a budget which spends \$670 million more than revenue we expect to receive. Since the governor signed that budget in June, state revenue forecasts have declined even farther. Consequently, we now have a budget that is unsustainable and has put taxpayers and those who must depend on critical assistance at risk.

How did this happen, and what can lawmakers do to make better use of your money? These are some of the questions I’ve tried to answer for you in this budget update. There are hard decisions to be made, but I’m confident we can avoid needless tax increases and protect taxpayers by creating a responsible, sustainable state budget.


Sincerely,


Barry Sehlin
State Representative

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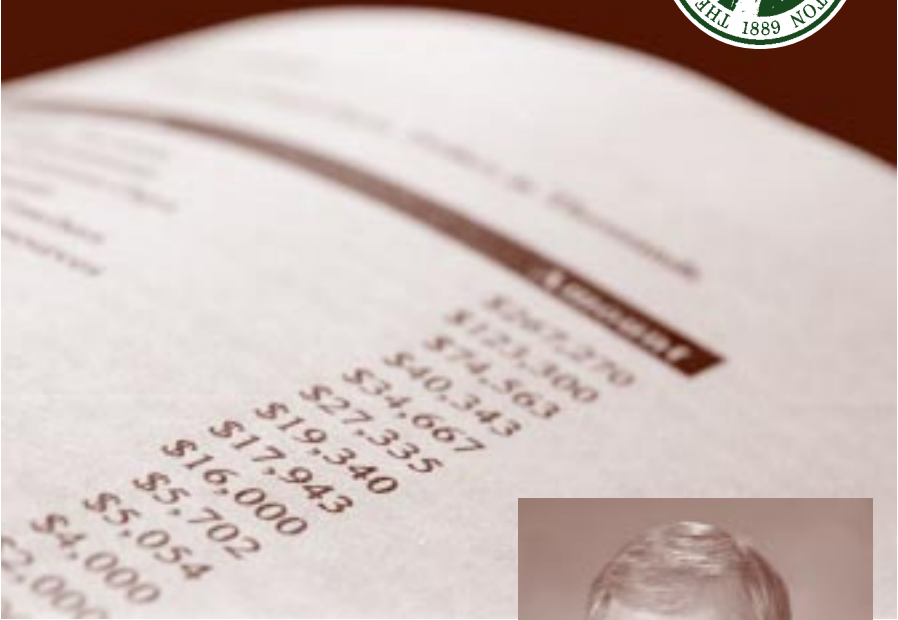
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State Budget Update



From
Representative
Barry Sehlin
House Appropriations Committee Co-Chair

Building a state budget



The state spending plan actually consists of three separate budgets:

- 1) **The operating budget**
- 2) **The transportation budget and**
- 3) **The capital budget.**

These budgets are paid for through different funding sources. They are adopted every two years, with the current biennium beginning July 1, 2001 and ending June 30 2003. However, it is normal to make adjustments each year in these budgets to pay for higher-than-expected enrollment in schools, increases in the number of people needing public assistance, and unforeseen emergencies, such as wildfire suppression or disaster relief.

Operating budget

The budget we most commonly refer to is the state operating budget, which includes appropriations from the general fund and other smaller accounts for general government operations. This includes funding for schools, colleges and universities, human services, natural resource management and other general needs.

The current 2001-03 general fund budget, crafted by Democrat lawmakers, totals \$22.8 billion. However, with the level of spending in the budget combined with declining revenues, some analysts anticipate that we will be facing a deficit in the general fund of over \$1 billion. Lawmakers will be forced to make real cuts to the operating budget this year if we are to bring it back into balance without raising taxes. (See more below.)

Transportation budget

The transportation budget funds highway construction, ferry services, transit services, the Washington State Patrol, and other transportation-related items. The 2001-03 state transportation budget totals \$3.4 billion, but it is widely considered insufficient to meet our state’s growing transportation needs. The current budget does not provide funding for new road construction projects over this period – only maintenance and preservation of existing highways.

Lawmakers have been working on a new revenue plan that would provide funding for \$10 billion in new projects to relieve traffic congestion, improve economic opportunities and make highways safer. But an agreement on a funding plan could not be reached during the 2001 session.

Among the key sticking points is whether the public should be allowed to vote on any new taxes needed to fund the plan. Republicans in the House have insisted that voters have the final say, while the governor and legislative Democrats do not want the tax package to go on the ballot.

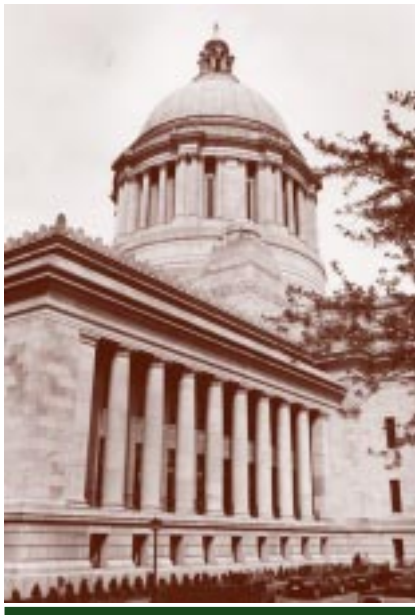


Capital budget

The state capital budget covers construction and remodeling costs for state facilities, including schools, state offices, parks and other items such as habitat improvement. The 2001-03 state capital budget funds approximately \$2.5 billion in construction costs over the two-year budget period.

A large share of state construction costs are funded through bonds, which are often backed by general fund revenues. Due to declining revenues, there is a fear that the state may not be able to support the level of bonding needed to pay for projects in the current budget. The governor has put a hold on borrowing for new construction projects.

Given our current revenue picture, I believe the governor’s decision to hold off on borrowing may be prudent. However, lawmakers will be working to make sure important construction needs are not held up unnecessarily for political reasons.



Operating budget poses a challenge for lawmakers

More difficult decisions are in store for lawmakers this year, as our state’s economy continues to slow and lawmakers work to protect important services. Just five months into our two-year budget cycle, it looks as though lawmakers will be forced to cut services in order to keep the Democrats’ budget in balance.

The collection of tax revenues has been steadily slowing over the past several months due to our cooling economy. Meanwhile, health care costs are rising substantially, increases in inflation and student enrollment will add \$33 million to the cost of K-12 education, we’ve incurred \$20 million in emergency expenses fighting wildfires this summer, and security issues at schools and other public facilities has become a paramount concern.

It will require a genuine bipartisan effort in the coming months to bring this budget back into balance and make it sustainable over the long term without the need for new taxes.

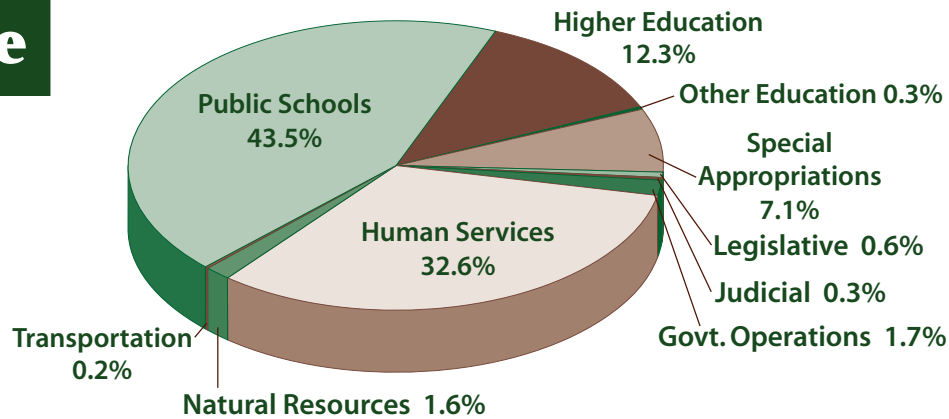
Bringing a budget into balance

2001-03 Budget Picture

The latest economic forecast released in September showed a drop in tax revenue of more than \$100 million in the current biennium, and that was before economists had a chance to factor in the effects of the Sept. 11 attack on our state and national economy. Some economists warn that we eventually could have a budget shortfall of over \$1 billion.

2001-03 Projected Tax Revenues **\$22,021,800**
2001-03 Budget Expenditures **\$22,786,783**
Difference **-\$765 million**

Unrestricted General Fund Reserve **\$66 million**
Emergency Reserve **\$390 million**



Approximately 43.5 percent of the \$22.8 billion general fund budget goes toward K-12 education – an area lawmakers would rather not cut. The next largest piece is human services, the majority of which consists of medical assistance and long-term care. The governor has asked seven of the largest state agencies to prepare contingency cuts of 15 percent from their budgets. The agencies he’s targeted for possible cuts include the departments of Social and Health Services, Corrections, Community Development, Health, Ecology, and Fish and Wildlife, as well as the Office of Trade and Economic Development.

I was pleased to hear the governor say that the budget will be brought back into balance without raising taxes. My House Republican colleagues and I are committed to working with him in a bipartisan manner to accomplish this.